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Presentation to Joint IEA-IEF-OPEC Technical Meeting

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US Dodd-Frank Act

- Signed into law July 2010
- Grants CFTC power to regulate OTC commodity swaps
- Introduces clearing and reporting for OTC swaps
- Creates new kind of trading venue for OTC swaps, known as a SEF
- Brings in tough regulatory regime for swap dealers
- Allows CFTC to impose position limits (OTC and ETD)

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Dodd-Frank: main issues

- Disrupts OTC market structure
- Increases attractiveness of futures vis-à-vis OTC swaps
- Hampers market liquidity by discouraging trading activity
- Creates additional burden for commercial end-users that need to hedge

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EMIR (EU)

- Entered into force August 2012
- Introduces clearing for many OTC commodity swaps
- Brings in reporting for all derivatives (OTC and ETD)
- Includes range of measures to reduce counterparty and operational risk
- Non-financial counterparties must clear their OTC trades if their portfolio reaches a certain size

EMIR: main issues

- Hampers market liquidity by discouraging trading activity
- Generates additional costs for commercial end-users
- Clearing threshold affects hedging policies
- Inconsistencies with Dodd-Frank and extraterritoriality

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REMIT (EU)

- Entered into force December 2011
- Bans manipulation and insider trading in physical and financial power and gas
- Forces firms to disclose market-sensitive information about their physical assets
- Introduces reporting for power and gas trades
- Gives ACER and national regulators ability to monitor market and pursue instances of abuse

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REMIT: main issues

- Complexity of reporting framework
- Need to make big changes to technology in order to report trades
- Compliance burden of dealing with rules
- Potential overlaps with Emir (i.e. financial energy trades)

MIFID II (EU)

- Entered into force June 2014
- Determines scope of other laws, such as Emir
- Curbs exemptions to financial regulation previously enjoyed by commodity trading companies
- Expected to subject commodity trading firms to range of financial rules
- Most worryingly, this includes CRD IV
- Introduces position limits for commodity derivatives

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MIFID II: main issues

- Pushes up cost of trading, potentially affecting market liquidity
- Position limits create additional burden for commercial end-users that need to hedge
- Possibility of corporate restructurings and threats of relocation
- Main provisions to take effect from 2017

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Commodity benchmarks

- Benchmark manipulation is a focus for energy and financial regulators
- FERC aggressively targeting cross-market manipulation in US
- MAR and MAD II clamp down on commodities in EU
- EU to enact regulation on financial benchmarks
- UK FCA to begin supervising 7 new benchmarks from April, including 3 commodity indices

Benchmarks: main issues

- Commodity benchmarks are never perfect
- Regulating benchmarks and their contributors could have chilling effect on contributions
- May have unintended consequences for market transparency

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